SASKENERGY INCORPORATED

FIRST QUARTER REPORT MARCH 31, 2014

SaskEnergy

TABLE OF CONTENTS

CORPORATE PROFILE

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent ministerial advisory committee, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure includes five wholly owned and two indirect wholly owned subsidiaries as follows:

> Bayhurst Gas Limited (Bayhurst) owns, produces, and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta. Bayhurst has two wholly owned subsidiaries as follows:
>
>> Bayhurst Energy Services Corporation (BESCO) is an energy services company. BESCO owns a 50% interest in a natural gas processing plant, which is operated through a joint arrangement with ATCO Energy Solutions. BESCO is also the sole owner and operator of a bulk Compressed Natural Gas fueling facility in Weyburn.
>>
>> BG Storage Inc. (BGSI) owns a 50% interest in a natural gas storage business, which is operated through a joint arrangement with Faro Energy Ventures Ltd.
>
> Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns nine natural gas pipeline interconnections into Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas Limited system. MIPL is regulated by the National Energy Board.
>
> Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas, and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can request the location of pipeline and underground facilities of its subscribers. *Sask 1st Call's* fee structure is intended to operate on a break-even basis.
>
> Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito, and Minitonas. SVGC is regulated by the Manitoba Public Utilities Board. In March 2014 SVGC received approval from the Manitoba Public Utilities Board to sell its assets to Centra Gas Manitoba Inc., including the transfer of its exclusive franchises in the Swan River area. This transaction is expected to be completed in May 2014.
>
> TransGas Limited (TransGas) owns and operates a high pressure natural gas transmission pipeline business and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas uses a Customer Dialogue process to openly discuss business, operational, and rate matters with a representative group of customers.

As a Crown corporation, SaskEnergy is committed to ensuring that all corporate activities are in strategic alignment with the Government of Saskatchewan's Crown Sector Priorities. Providing safe, reliable, high quality service to its customers is critically important to the Corporation – as is the provision of infrastructure necessary for the Province to grow and prosper.

VISION, MISSION AND VALUES

VISION

To create a competitive advantage for Saskatchewan through safe, innovative energy solutions.

MISSION

Our team of engaged employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

VALUES

Community
We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

Recognition
We take time to recognize the individual and team contributions of our employees.

Spirit
We create a positive and dynamic work environment that enables personal achievement, work life balance & business success.

Safety
We never compromise the safety of our employees and the public.

Communication
We have open, honest and respectful communication that builds strong relationships.

Accountability
We are accountable for our decisions, our actions and the results.

Integrity
We are honest, respectful and apply high ethical standards.

FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended March 31	
	2014	**2013**
FINANCIAL HIGHLIGHTS		
($ millions)		
Total revenue	**362**	277
Total expenses	**299**	214
Consolidated net income	**63**	63
Market value adjustments	**24**	6
Income before unrealized market value adjustments	**39**	57
Dividends	**6**	7
Cash provided by operating activities	**80**	78
Capital expenditures	**29**	26
Total assets	**2,231**	2,030
Total net debt	**1,031**	976
Debt ratio	**56.3%**	56.5%
OPERATING HIGHLIGHTS		
Distribution		
Volumes distributed (petajoules)	**66**	58
Weather (compared to last 30 years)	**17% colder**	10% colder
Transmission		
Volumes transported (petajoules)	**92**	80
Peak day natural gas flows (petajoules)	**1.37**	1.20
Date of peak flow	**February 6**	January 30

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the three month period ended March 31, 2014. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. This MD&A is presented as at May 14, 2014 and should be read in conjunction with the Corporation's condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS). For additional information related to the Corporation, refer to SaskEnergy's 2013 Annual Report.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management and Disclosure section of SaskEnergy's 2013 Annual Report. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by, or implied by such statements.

The volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating season of November to March. Additionally, changes in market value adjustments may cause significant fluctuations in net income due to the volatility of natural gas prices. Therefore, the condensed consolidated financial results should not be taken as indicative of the performance to be expected for the full year.

In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales, and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income, and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, in that there is no standardized definition, and may not be comparable to similar measures presented by other entities.

CONSOLIDATED FINANCIAL RESULTS

	Three months ended March 31		
(millions)	**2014**	2013	Change
Income before unrealized market value adjustments	**$ 39**	$ 57	$ (18)
Impact of fair value adjustments	**13**	(2)	15
Revaluation of natural gas in storage	**11**	8	3
Consolidated net income	**$ 63**	$ 63	$ -

The beginning of 2014 can be best characterized by the relentless cold weather experienced throughout the Province. The winter of 2013/2014 was one of the coldest Saskatchewan has experienced in the past 30 years. High winds and cloudy conditions further contributed to the chilling effect leading to a high and almost uninterrupted demand for natural gas from the onset of the winter heating season. Typically, colder weather generates positive results for the Corporation as additional natural gas is delivered to customers. While the cold weather impact is evident in the $11 million growth in delivery revenue, the system and supply challenges also led to additional costs. Operating costs saw a $9 million increase period over period as additional natural gas was imported into Saskatchewan to meet heightened demand, resulting in additional third party transportation costs. The Corporation's team of dedicated employees and contractors worked long hours to ensure the provincial natural gas system met the high level of customer demand. Cold weather across North America drove significant natural gas price increases which, when combined with the need to purchase additional natural gas to meet the demand, negatively impacted the Corporation's first quarter realized margin on natural gas sales – declining from $25 million in 2013 to $6 million in 2014. Consequently, the Corporation's income before unrealized market value adjustments of $39 million was $18 million below the first quarter of 2013.

Natural gas prices continue to be a factor that can drive significant volatility, as evidenced by the $18 million change in unrealized market value adjustments on a period-over-period basis. At the end of March 31, 2014 the net realizable of natural gas in storage recovered, approximating cost, and the Corporation's fair value position on outstanding natural gas contracts also improved. As a result, consolidated net income of $63 million was the same as the first quarter in 2013.

Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels, and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices can be very volatile.

This past winter was the coldest in Canada and the United States in the past 20 years. Across North America, demand to heat homes and businesses increased consumption. In the United States, records were set in January for consumption by residential, commercial, and industrial customers. Utilities were required to purchase more natural gas than planned, putting a strain on pipeline capacity across the continent. The cold weather resulted in the largest ever winter season storage drawdown in North America. At the end of March, natural gas in storage in the United States was 55% below the five-year average and at the lowest level in 11 years.

Natural gas prices increased and experienced high volatility due to the extreme cold. The AECO monthly index, the benchmark price for natural gas in western Canada, averaged $4.51 per gigajoule (GJ) in the first three months of 2014, up 54% from the same time period in 2013. The March monthly index reached a five-year high of $5.64 per GJ. The volatile nature of natural gas prices could be best seen in the spot market, due to the high demand for heating load this winter. At AECO, spot prices reached a record high of $38 per GJ while in New York, spot prices traded as high as $127 per GJ (US $135 per mmbtu).

The following chart presents AECO natural gas prices. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is usually between $0.05 per GJ and $0.20 per GJ higher than AECO.

Natural Gas Sales and Purchases

Included within natural gas sales and purchases are rate-regulated commodity sales to distribution customers and non-regulated gas marketing activities. Although presented together within the consolidated financial statements, the Corporation manages these activities as distinct and separate businesses and, as such, the MD&A addresses these natural gas sales and purchases separately.

Commodity Sales to Customers

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate, which is reviewed April 1 and November 1 of each year, is determined based on rate-setting principles and is designed to recover the associated costs of natural gas sold to distribution customers without earning a profit or incurring a loss over the long term. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. Consequently, the amounts determined for rate-setting purposes are different than those reported within its consolidated financial statements. The most notable differences are the elimination of intercompany costs, including transportation and storage costs paid to TransGas, and the timing related to recognition of financial derivative settlements. While a gain or loss is commonly reported in the Corporation's consolidated financial statements, it should not be taken as indicative of the results recorded within the GCVA. The commodity sales to customers, as reported in the consolidated financial statements, were as follows:

	Three months ended March 31		
(millions)	**2014**	2013	Change
Commodity sales	**$ 121**	$ 96	$ 25
Commodity purchases [1]	**(120)**	(80)	(40)
Realized margin on commodity sales	**1**	16	(15)
Impact of fair value adjustments	**27**	19	8
Margin on commodity sales	**$ 28**	$ 35	$ (7)

[1] Net of change in inventory

SaskEnergy manages the purchase price of natural gas it buys on behalf of customers through its natural gas price risk management program with two objectives in mind: reduce the volatility of natural gas prices; and, offer rates that are competitive to other utilities. The two objectives naturally oppose each other, and the balance between the two may change depending on existing market conditions. In order to ensure a secure supply of natural gas, SaskEnergy contracts for the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts. The purchase price contained in these forward contracts may be fixed, or it may be based on a variable index price. SaskEnergy also uses financial derivatives, primarily natural gas price swaps, to manage the future purchase price of natural gas. While fixed price contracts reduce the impact of natural gas price volatility, variable or market prices can assist in offering competitive rates depending on the pricing environment.

As derivative instruments, natural gas contracts are recorded at fair value until the settlement date. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices related to the purchase prices of outstanding contracts, are recorded in commodity purchases. Upon settlement of the contract, the amount paid or received by SaskEnergy becomes realized and is recorded in commodity purchases. For the first three months of 2014, fair value adjustments increased the margin on commodity sales by $27 million as the $21 million unfavourable fair value position at the end of 2013 improved to a $6 million favourable position at the end of March 2014. Increased future natural gas prices translated into improved fair value positions on those natural gas purchases that remained outstanding as at March 31, 2014, meaning the average purchase price was lower than the average future market price.

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments, as these adjustments can fluctuate significantly from one period to the next and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a consolidated basis, the Corporation realized a $1 million margin on commodity sales, with average revenue of $3.81 per GJ and average cost of gas sold of $3.80 per GJ. This compared to a $16 million realized margin in 2013, with average revenue of $3.80 per GJ and average cost of gas sold of $3.17 per GJ. The Corporation, through its natural gas price risk management program, places more focus on fixed price natural gas contracts during the winter months in order to maintain a high degree of stability when customers use the most natural gas. The Corporation's strategy, which is based on forecasted usage for normal winter weather, minimized the impact of the escalation in natural gas prices during the quarter. However, due to the prolonged and extreme cold weather throughout the 2013/2014 winter, 8.4 petajoules (PJ) of additional natural gas was purchased at market prices in order to meet customer demand, increasing the average cost of gas sold per GJ.

Gas Marketing Sales

(millions)	Three months ended March 31 2014	2013	Change
Gas marketing sales	$ 145	$ 99	$ 46
Gas marketing purchases [1]	(140)	(90)	(50)
Realized margin on gas marketing sales	5	9	(4)
Impact of fair value adjustments	(16)	(20)	4
Revaluation of natural gas in storage	11	8	3
Gain (loss) on gas marketing sales	$ -	$ (3)	$ 3

[1] Net of change in inventory

SaskEnergy's gas marketing operation employs several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin. The most significant gas marketing activity is focused on utilizing the storage capabilities of a depleted gas field in west-central Saskatchewan. The primary strategy involves the purchase of natural gas accompanied by a forward sales contract which essentially locks in a future profit margin. Low natural gas market prices over the past few years also created an opportunity for the Corporation to purchase relatively low-priced natural gas to inject into this storage facility with the intent to sell it at a profit when prices rise. During off-peak periods the Corporation also optimizes transmission and storage capacity by purchasing and selling natural gas in the open market to generate additional margins. The margins earned on this activity benefit customers by reducing pressure on transmission and distribution tolls. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Transactions undertaken through the Corporation's gas marketing strategies result in exposure to risk, especially given the volatility of natural gas market prices. Similar to the discussion regarding commodity sales, the Corporation may enter into various natural gas contracts to manage natural gas price risk for its gas marketing activities. These contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value positions are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is realized and recorded in gas marketing sales or gas marketing purchases, as appropriate.

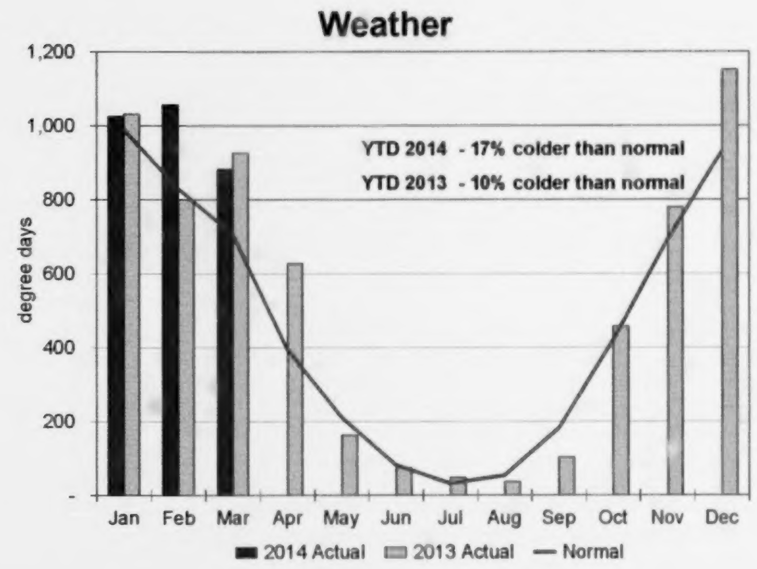
During the first three months of 2014, fair value adjustments on derivative instruments reduced the margin on gas marketing sales by $16 million as the fair value position declined from $9 million favourable at the end of 2013 to $7 million unfavourable at the end of March 2014. The change reflects the rise in natural gas prices as future market prices at the end of March 2014 were above the average sales price of the Corporation's outstanding contracts.

At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices and anticipated delivery dates. The carrying amount of natural gas in storage inventory is then adjusted to reflect the lower of weighted average cost and net realizable value. In recent years, low natural gas prices translated to reduced prices on the forward curve, and consequently, the net realizable value of gas marketing natural gas in storage was $11 million below cost as at December 31, 2013. Considerable improvements in future market prices meant the weighted average cost approximated net realizable value at the end of March 2014. As a result, the Corporation recorded an $11 million improvement during the first quarter of 2014 to eliminate the previously recorded revaluation of natural gas in storage.

The realized margin on gas marketing sales, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $5 million. This was a decrease of $4 million from last year as increased natural gas prices negatively impacted the average cost of inventory, thereby reducing the realized margins on sales transactions.

Delivery Revenue

The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge. Nearly 7,700 new residential, business, and industrial customers were added to the distribution system in 2013 and another 1,800 were added during the first quarter of 2014 leading to increased basic monthly charge revenue and additional volumes delivered.



Delivery revenue is also heavily influenced by weather. With one of the coldest winters in the last 30 years, weather throughout the first three months of 2014 was 17.3% colder than normal (based on weather data for the past 30 years) and 7.5% colder than the same period in 2013. The cold weather, along with the customer growth, resulted in an additional 3.5 PJ of natural gas delivered to customers. The 11.9% volume increase contributed to $85 million in delivery revenue, an $11 million improvement on a period-over-period basis when combined with the September 1, 2013 delivery rate increase.

Transportation and Storage Revenue

The Corporation's subsidiary, TransGas, provides receipt and delivery transportation through the use of the TransGas Energy Pool (TEP), a notional point where producers, marketers and end-users can match supplies to demand. On the receipt side, the Corporation offers both firm and interruptible transportation from points of receipt to TEP. On the delivery side, the Corporation offers firm and interruptible service for gas delivered from TEP to consumers within Saskatchewan or for export. Integral to the Corporation's transmission system are several strategically located natural gas storage sites with the capacity to provide operational flexibility along with a reliable and competitive natural gas storage service.

The first quarter of 2014 presented a number of challenges for TransGas. The combination of extremely cold weather, natural gas price volatility, high industrial usage, and third party restrictions at Alberta interconnect points resulted in a record level of storage withdrawals in the Province. In order to maintain firm delivery service to customers, TransGas introduced a number of key measures, such as system modifications, increased third party transport contracts, and periodic restrictions on interruptible transportation service predominately in the northern part of the Province. The combined efforts of TransGas and its customers were necessary to protect the reliability of firm delivery service within the Province.

In terms of financial results, the additional activity did not have a substantial impact on total revenue for the first quarter of 2014 as transportation and storage revenue of $23 million was consistent with 2013. The majority of the Corporation's customers transport natural gas under firm contracts, so while the increased activity resulted in additional volumes most natural gas was transported within customers' existing contracts, and therefore, did not have a significant impact on revenue. There was some improvement in direct and receipt revenue, a consequence of higher contracted demand and interruptible volumes as well as rate increases that became effective March 1, 2013 and January 1, 2014. Higher storage withdrawals lead to excess withdrawal charges from customers; however, this was offset by lower contracted storage revenue given customer-driven decontracting that occurred in 2013.

Customer Capital Contribution Revenue

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. These contributions, less potential refunds, are recognized as revenue once the related property, plant, and equipment is available for use. The volume and magnitude of these contributions can vary significantly period over period as varying factors influence their receipt. Generally, customer capital contributions mirror the projects themselves – those related to the transmission system tend to be larger but less frequent than contributions related to the distribution system. Customer capital contribution revenue of $5 million, driven by the 1,800 distribution system customer connections in the quarter, was consistent with the same period in 2013.

Other Revenue

Other revenue primarily consists of revenues from natural gas processing operations and royalty revenues. The Corporation's natural gas processing operations include gas processing at two separate gas plants and the sale of natural gas liquids from the processing operations. Royalty revenue is generated from a gross overriding royalty on 450 natural gas-producing properties in Saskatchewan and Alberta. Other revenue of $4 million for the first three months of 2014 was $1 million above the prior year, a result of increased liquid prices and processing fees.

Other Expenses

The supply and system challenges experienced throughout the first quarter of 2014 placed upward pressure on the Corporation's operating costs. As a result, first quarter operating costs, which include employee benefits and operating and maintenance costs, increased from $42 million in 2013 to $51 million in 2014.

With bitterly cold temperatures throughout much of the first quarter of 2014, Saskatchewan people depended on the Corporation to keep natural gas flowing to their homes and businesses. The Corporation managed to successfully deliver natural gas with no outages after working through multiple challenges – incurring additional overtime and costs. Employees from across the Corporation came together in an extended team effort to keep the natural gas system running during the frigid temperatures. Employees responded to pressure alarms at stations around the Province, dealt with line heater issues, completed equipment repairs, and answered customer enquiries.

The Corporation experienced a record level of storage withdrawals during the quarter, a consequence of cold weather and high market prices. In order to maintain the required levels of storage and delivery capacity, the Corporation installed additional mobile compression facilities, introduced system modifications to flow more natural gas where needed, and contracted additional third party transport to bring more natural gas from Alberta. As a consequence, third party transportation expenses increased $5 million compared to the first quarter of 2013 with the variance expected to grow for the remainder of the year as the Corporation continues to rebuild storage levels. The Corporation actively manages third party transportation costs in an effort to limit rate pressure. By taking advantage of any underutilized third party firm contracts, the Corporation was able to earn an additional margin of $2 million which is included within gas marketing results. When possible during breaks in the cold weather, the Corporation focused on storage recovery, injecting natural gas into storage to ensure continued supply. However, this cycling of storage also resulted in additional charges with compressor fuel charges more than doubling what they were for the first quarter last year.

Depreciation and amortization expense of $20 million for 2014 was consistent with the prior year. The significant level of capital expenditures throughout last year led to a higher capital asset base at the beginning of 2014, resulting in additional depreciation and amortization expense. However, the rates used in the first quarter of 2014 were lower than those used in the first quarter of 2013 given timing of the Distribution Utility depreciation study implementation last year.

Saskatchewan taxes of $2 million, which include corporate capital taxes paid to the Province and grants-in-lieu of taxes paid to municipalities, were consistent with the first quarter of 2013.

Net finance expenses, before the impact of fair value adjustments, were $11 million compared to $9 million in 2013 given higher finance expenses. Within finance expenses the Corporation incurred higher debt interest, a combination of slightly higher debt balances and rates, as well as recognized additional costs related to unwinding of the discount of the Distribution Utilities' decommissioning liability. There was also a $2 million favourable fair value adjustment on debt retirement funds during 2014, an outcome of reduced interest rates on the fair value of primarily fixed-rate investments.

LIQUIDITY AND CAPITAL RESOURCES

(millions)	Three months ended March 31 2014	2013	Change
Cash provided by operating activities	**$ 80**	$ 78	$ 2
Cash used in investing activities	**(30)**	(24)	(6)
Cash used in financing activities	**(44)**	(53)	9
Increase in cash and cash equivalents	**$ 6**	$ 1	$ 5

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the Province's General Revenue Fund and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

Cash from operating activities was $80 million in 2014, an increase of $2 million from the first quarter of 2013. Although colder than normal weather resulted in increased cash flow for the Distribution Utility, additional costs were incurred to maintain system reliability and natural gas supply.

Cash used in investing activities totaled $30 million for the quarter, $6 million above 2013. Given the seasonality of the construction activity within Saskatchewan, most of the Corporation's annual capital investment occurs during the second and third quarters. The majority of the first quarter capital investment was focused on system expansion (a result of Saskatchewan residential and industrial growth as well as changes in natural gas supply) and safety and integrity programming (a sign of the Corporation's ongoing commitment to a safe, reliable system). The Corporation funds its high level of capital requirements with cash from operations and debt from the Province of Saskatchewan.

Cash used for financing activities was $44 million during 2014 as the Corporation paid dividends to its Shareholder, CIC, of $10 million. Given the Corporation's relatively high short-term debt balances and attractive rates on long-term debt, the Corporation converted $246 million of short-term debt to long-term debt during the quarter at a weighted average interest rate of 3.2%. SaskEnergy's debt ratio at the end of the period was 56.3%, an improvement from 58.8% at December 31, 2013 and in line with the Corporation's long-term target of 57.0%. Generally, the debt ratio improves during the first quarter as the Corporation generates a considerable amount of cash from operations during the winter months and uses that cash to pay down short-term debt.

OUTLOOK

With continued Saskatchewan growth, the Corporation plans to spend an additional $270 million on capital during the remainder of 2014, highlighted by a continued concentration on public safety, through system upgrading and integrity programming, as well as on meeting new infrastructure requirements. The Corporation will focus on maximizing supply into Saskatchewan through system enhancements and customer specific facilities to meet growing demand. Projects such as the construction of a pipeline between Bayhurst, a storage field near Leader, to Rosetown are scheduled for completion in 2014 and will enable the Corporation to move more natural gas into the northern portion of its system. At the same time, the Corporation has planned a number of system improvements, such as additional mobile compression, to enhance the reliability of its system during winter operations.

The Corporation is able to fund these capital expenditures, as well as its financial obligations, through its consistent operating cash flows and debt available through the Province. Given the Province's "AAA" credit rating, the Corporation is able to take advantage of historically low interest rates to fund these expenditures, matching the multi-generational life expectancy of the capital assets. Each year, through cooperation and consultation with the Province, CIC, and management, the Corporation prepares a Debt Management Plan that factors the current interest rate environment with liquidity requirements to plan for short- and long-term borrowings for the coming years. In addition, the Corporation's strategic objective designed to inject natural gas into storage during low priced periods and hold it for resale in future periods will generate additional margins and cash flow for the Corporation.

In close alignment with the Government of Saskatchewan's Crown Sector Priorities and Saskatchewan Growth Plan, SaskEnergy's 2014 efforts focus around its four strategic mandates: Service Excellence, Achieving Growth, Our Team, and Creating Value. The Corporation is well-positioned to achieve its business objectives in 2014. While realizing efficiencies, the Corporation is projected to achieve consistent profitability from operations with an income before unrealized market value adjustments target of $56 million in 2014. The forecast is slightly below the 2014 budget, an outcome of the high natural gas price environment and the additional third party firm transportation contracts.

SaskEnergy's current commodity rate of $3.82 per GJ has been in place since April 1, 2012 when customers received a 16.1% decrease from $4.55 per GJ. A winter of extreme cold throughout most of the continent has resulted in higher and more volatile natural gas prices. While it is anticipated that a commodity rate increase will be necessary, the Corporation has decided to postpone changing its commodity rate until there is more price stability in the natural gas market. As summer approaches it is expected that natural gas prices will stabilize. The Corporation will determine the appropriate commodity rate for the foreseeable future, and will consider submitting an application to the Saskatchewan Rate Review Panel.

CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	Notes	As at March 31, 2014 (unaudited)	As at December 31, 2013 (audited)
Assets			
Current assets			
Cash		$ 6	$ -
Trade and other receivables		165	148
Natural gas in storage held for resale	4	178	208
Inventory of supplies		12	12
Debt retirement funds		6	6
Assets held for sale		4	4
Fair value of derivative instruments	5	37	28
		408	406
Intangible assets		47	47
Property, plant and equipment		1,698	1,682
Debt retirement funds		78	72
		$ 2,231	$ 2,207
Liabilities and Province's equity			
Current liabilities			
Short-term debt		$ 113	$ 380
Trade and other payables		102	122
Dividends payable		6	10
Current portion of long-term debt	6	50	50
Deferred revenue		67	59
Fair value of derivative instruments	5	37	39
		375	660
Employee future benefits		10	10
Provisions		77	71
Deferred revenue		9	9
Long-term debt	6	958	712
		1,429	1,462
Province's equity			
Equity advances		72	72
Retained earnings		730	673
		802	745
		$ 2,231	$ 2,207

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

		For the Three Months Ended March 31, 2014			For the Three Months Ended March 31, 2013		
(millions)	Notes	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total
Revenue							
Natural gas sales	9	$ 266	$ (21)	$ 245	$ 195	$ (23)	$ 172
Delivery		85	-	85	74	-	74
Transportation and storage		23	-	23	23	-	23
Customer capital contributions		5	-	5	5	-	5
Other		4	-	4	3	-	3
		383	(21)	362	300	(23)	277
Expenses							
Natural gas purchases (net of change in inventory)	9	260	(43)	217	170	(30)	140
Employee benefits		24	-	24	23	-	23
Operating and maintenance		27	-	27	19	-	19
Depreciation and amortization		20	-	20	20	-	20
Saskatchewan taxes		2	-	2	2	-	2
		333	(43)	290	234	(30)	204
Net income before the following		50	22	72	66	7	73
Finance income		1	2	3	1	(1)	-
Finance expenses		(12)	-	(12)	(10)	-	(10)
Net finance expenses		(11)	2	(9)	(9)	(1)	(10)
Total net income and comprehensive income		$ 39	$ 24	$ 63	$ 57	$ 6	$ 63

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
Balance as at January 1, 2013	$ 624	$ 72	$ -	**$ 696**
Comprehensive income	63	-	-	**63**
Dividends	(7)	-	-	**(7)**
Balance as at March 31, 2013	$ 680	$ 72	$ -	**$ 752**
Balance as at January 1, 2014	$ 673	$ 72	$ -	**$ 745**
Comprehensive income	63	-	-	**63**
Dividends	(6)	-	-	**(6)**
Balance as at March 31, 2014	$ 730	$ 72	$ -	**$ 802**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(millions)	Notes	For the Three Months Ended March 31 2014	2013
Operating activities			
Net income		**$ 63**	$ 63
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	8	**(11)**	1
Change in revaluation of natural gas in storage to net realizable value	8	**(11)**	(8)
Depreciation and amortization		**20**	20
Net finance expenses		**9**	10
Gain on disposal of assets		**-**	(2)
Other non-cash items		**-**	-
		70	84
Net change in non-cash working capital related to operations	10	**10**	(6)
Cash provided by operating activities		**80**	78
Investing activities			
Additions to intangible assets		**(1)**	(2)
Additions to property, plant and equipment		**(29)**	(23)
Net proceeds on disposal of assets		**-**	1
Cash used in investing activities		**(30)**	(24)
Financing activities			
Debt retirement funds installments		**(3)**	(2)
Decrease in short-term debt		**(267)**	(30)
Dividends paid		**(10)**	(11)
Proceeds from long-term debt	6	**246**	-
Interest paid		**(10)**	(10)
Cash used in financing activities		**(44)**	(53)
Increase in cash and cash equivalents		**6**	1
Cash and cash equivalents, beginning of period		**-**	2
Cash and cash equivalents, end of period		**$ 6**	$ 3

(See accompanying notes)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

For the Three Months Ended March 31, 2014

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincially owned Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan. The condensed consolidated financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the natural gas business.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincially owned Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of preparation

a. Statement of compliance

The Corporation's unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The condensed consolidated financial statements do not include all the information required for the Corporation's annual consolidated financial statements. Accordingly, these statements should be read with reference to the annual report for the year ended December 31, 2013.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on May 14, 2014.

b. Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following items:

Financial instruments classified as at fair value through profit or loss
Employee future benefits
Provisions

c. Functional and presentation currency

The condensed consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, unless otherwise stated. All financial information presented in Canadian dollars has been rounded to the nearest million.

d. Use of estimates and judgments

In the application of the Corporation's accounting policies management is required to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the condensed consolidated financial statements include:

Revenue recognition related to unbilled revenue
Existence of decommissioning liabilities

2. **Basis of preparation (continued)**

d. **Use of estimates and judgments (continued)**

Information about significant management estimates and assumptions that have a significant risk of resulting in a material adjustment within the next financial period include:

Estimated unbilled revenue
Net realizable value of natural gas in storage held for resale
Fair value of financial and derivative instruments
Useful lives and amortization rates for intangible assets
Useful lives and depreciation rates for property, plant, and equipment
Estimated unearned customer capital contributions
Estimated future cost of decommissioning liabilities

3. **Summary of significant accounting policies**

The accounting policies, as detailed in Note 3 to the consolidated financial statements for the year ended December 31, 2013, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated financial statements.

a. **Changes in accounting policies**

Effective January 1, 2014, the Corporation adopted the following new and amended IFRS:

IAS 32 *Financial Instruments: Presentation*

Amendments to this standard clarified certain items regarding offsetting financial assets and financial liabilities. The adoption of this amended standard had no impact on the condensed consolidated financial statements.

b. **Future changes in accounting policies**

The following new and amended standards are not yet effective and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial Instruments* – reduces measurement classification of financial assets to one of two categories: amortized cost or fair value. The classification is based on an entity's business model for managing the asset and the contractual cash flow characteristics of the asset. This standard is effective for annual periods beginning on or after January 15, 2018.

SaskEnergy is continuing to review this new standard and has not yet determined the impact on its consolidated financial statements.

4. **Natural gas in storage held for resale**

(millions)	**As at March 31, 2014**	**As at December 31, 2013**
Cost	**$ 178**	$ 219
Revaluation to net realizable value	**-**	(11)
	$ 178	$ 208

At the end of the period, the net realizable value of natural gas in storage approximated its cost (December 31, 2013 - $11 million below cost). As at March 31, 2014, the Corporation expected that $89 million of the current inventory value would be sold or consumed within the next year, and $89 million of the current inventory value would be sold or consumed after more than one year.

5. Financial and derivative instruments

			As at March 31, 2014		As at December 31, 2013	
(millions)	Classification	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial and derivative assets						
Cash	FVTPL	n/a	$ 6	$ 6	$ -	$ -
Trade and other receivables	LAR	n/a	165	165	148	148
Debt retirement funds	FVTPL	Level 2	84	84	78	78
Fair value of derivative instrument assets	FVTPL	Level 2	37	37	28	28
Financial and derivative liabilities						
Short-term debt	OL	n/a	113	113	380	380
Trade and other payables	OL	n/a	102	102	122	122
Dividends payable	OL	n/a	6	6	10	10
Long-term debt	OL	Level 2	1,008	1,038	762	869
Fair value of derivative instrument liabilities	FVTPL	Level 2	37	37	39	39

Classification details:
FVTPL - fair value through profit or loss
LAR - loans and receivables
OL - other liabilities

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short-term nature of the financial instrument.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price. As at March 31, 2014 natural gas derivative instruments had the following fair values, notional values, and maturities:

(millions)	2015	2016	2017	2018	2019	Total
Physical natural gas contracts						
Fair value	$ (12)	$ 4	$ 1	$ 1	$ 1	$ (5)
Notional value	1	1	(13)	(24)	(14)	(49)
Natural gas price swaps						
Fair value	7	-	(1)	(1)	-	5
Notional value	7	-	(1)	(1)	-	5
Total						
Fair value	$ (5)	$ 4	$ -	$ -	$ 1	$ -
Notional value	$ 8	$ 1	$ (14)	$ (25)	$ (14)	$ (44)

Fair value - increase (decrease) in net income
Notional value - estimated undiscounted net cash inflow (outflow)

5. Financial and derivative instruments (continued)

The fair value of the Corporation's outstanding natural gas contracts is presented in the consolidated statement of financial position as follows:

(millions)	As at March 31, 2014	As at December 31, 2013
Fair value of derivative instrument assets	$ 37	$ 28
Fair value of derivative instrument liabilities	(37)	(39)
	$ -	$ (11)

Financial assets and liabilities are offset within the condensed consolidated statement of financial position if the Corporation has the legal right to offset and intends to settle on a net basis. When natural gas contracts settle or become realized, the Corporation records the amount due to or from counterparties within trade payables or trade receivables, respectively. The Corporation offsets these amounts when the counterparty and timing of settlement are the same, which reflects the Corporation's expected future cash flows from settling its natural gas contracts. At period end, the following amounts were netted within the statement of financial position:

(millions)	As at March 31, 2014	As at December 31, 2013
Trade and other receivables		
Gross amount recognized	$ 53	$ 31
Amount offset	(37)	(17)
Net amount presented in the statement of financial position	16	$ 14
Trade and other payables		
Gross amount recognized	$ 72	$ 41
Amount offset	(37)	(17)
Net amount presented in the statement of financial position	$ 35	$ 24

6. Long-term debt

During the period, the Corporation issued $250 million in long-term debt with a weighted average interest rate of 3.2%. The long-term debt was issued at a discount of $4 million.

7. Commitments and contingencies

At period end, the Corporation forecasted to spend an additional $270 million on capital projects during the remainder of 2014, and the Corporation had $125 million of outstanding contractual commitments for the procurement of goods and services in the future.

8. Unrealized market value adjustments

(millions)	For the Three Months Ended March 31 2014	2013
Change in fair value of debt retirement funds	$ 2	$ (1)
Change in fair value of natural gas derivative instruments	11	(1)
Change in revaluation of natural gas in storage to net realizable value	11	8
	$ 24	$ 6

9. Natural gas sales and purchases

	For the Three Months Ended March 31					
	2014			2013		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 109	$ -	$ 109	$ 96	$ -	$ 96
Realized on natural gas derivative instruments	12	145	157	-	99	99
Fair value of natural gas derivative instruments	-	(21)	(21)	-	(23)	(23)
	121	124	245	96	76	172
Natural gas purchases						
Realized on natural gas derivative instruments	(120)	(140)	(260)	(80)	(90)	(170)
Fair value of natural gas derivative instruments	27	5	32	19	3	22
Revaluation of natural gas in storage	-	11	11	-	8	8
	(93)	(124)	(217)	(61)	(79)	(140)
	$ 28	$ -	$ 28	$ 35	$ (3)	$ 32

10. Net change in non-cash working capital related to operations

	For the Three Months Ended March 31	
(millions)	2014	2013
Trade and other receivables	**$ (17)**	$ (21)
Natural gas in storage held for resale	**41**	31
Trade and other payables	**(22)**	(24)
Deferred revenue	**8**	8
	$ 10	$ (6)

11. Financial risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk, and foreign currency risk), liquidity risk, and credit risk related to its financial and derivative instruments. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation's risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use financial and derivative instruments to manage its risks. The Corporation's significant risk management policies include the Corporate Derivatives Policy, the Commodity Risk Management Policy, the Corporate Debt and Interest Rate Risk Management Policy, the Foreign Currency Risk Management Policy and the Corporate Credit Risk Management Policy. The objectives, policies, and processes for managing risk were consistent with the prior period. The significant risks in relation to financial instruments that impact the Corporation are discussed below.

11. Financial risk management (continued)

a. Natural gas price risk

The Corporation purchases natural gas for resale to its customers. While natural gas is purchased at fluctuating market prices, the Corporation sells natural gas to customers at a fixed commodity rate that is reviewed semi-annually. As part of its natural gas price risk management, the Corporation uses derivative instruments to manage the price of the natural gas it buys on behalf of its customers. The Corporation's objective is to reduce the volatility of natural gas prices and to have rates that are competitive to other utilities. The Corporation also purchases and sells natural gas in the open market to generate incremental income through its gas marketing activities.

The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions, and forward contracts.

The Corporation's commodity price risk management strategy establishes specific hedging targets, which may differ depending on current market conditions, to guide risk management activities. Additionally, the Corporation uses mark-to-market value, value-at-risk, and net exposure to monitor natural gas price risk. These metrics are measured and reported daily to the Commodity Risk Management Committee, a subcommittee of the Corporation's Executive Committee.

Based on the Corporation's period-end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $35 million (December 31, 2013 - $35 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $35 million (December 31, 2013 - $35 million).

b. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at March 31, 2014 were as follows:

		Contractual Maturities			
(millions)	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years
Short-term debt	$ 113	$ 113	$ -	$ -	$ -
Trade and other payables	102	102	-	-	-
Dividends payable	6	6	-	-	-
Long-term debt	1,008	97	95	322	1,187
Derivative instruments	37	-	-	53	-
	$ 1,266	$ 318	$ 95	$ 375	$ 1,187

At period end, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations.

In addition to the above, the Corporation has posted a $15 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract.

c. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, debt retirement funds, and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

11. Financial risk management (continued)

c. Credit risk (continued)

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At period end, the maximum credit exposure to a single counterparty was $5 million (December 31, 2013 - $4 million).